

Message Text

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FOR UNDER SECRETARY MAW, ARA - AMB. RYAN, L/ARA - GANTZ,
S/P - EINAUDI, TREASURY - MARESCA

E.O. 11652: N/A

TAGS: EIND, EINV, EMIN, PFOR, PE

SUBJECT: MARCONA - BANKERS TAKE A HARD LINE WITH SANTISTEVAN

REF: STATE 121790

1. SUMMARY: BRIEFING OF EMBOFFS BY LOCAL CITIBANK REP INDICATES THAT PERUVIAN CENTRAL BANK PRESIDENT CARLOS SANTISTEVAN CAME AWAY EMPTY-HANDED FROM MAY 14 MEETING WITH MAJOR NEW YORK BANKS. WITH CITIBANK TAKING LEAD, BANKS INDICATED THAT NO REFINANCING PACKAGE WOULD BE FORTHCOMING UNLESS PERU COMES UP WITH SERIOUS ECONOMIC STABILIZATION PROGRAM. BANKS' VIEW IS THAT GOP MUST MAKE HARD POLITICAL DECISIONS IN THIS REGARD VERY SOON OR FACE UNPLEASANT DEBT RESCHEDULING ALTERNATIVE. BANKS LINK BALANCE OF PAYMENTS PROBLEM TO BOTH CUAJONE SUPPLEMENTARY FINANCING AND MARCONA SETTLEMENT. END SUMMARY.

2. EMBASSY ECONOMIC COUNSELOR AND ECON OFFICER MET MAY 19 WITH PHILIP MARKERT, LOCAL CITIBANK REP; ALAN ROGERS, BANK OF AMERICA REP; AND FRANCISCO SANCHEZ, MANUFACTURERS HANOVER REP, IN ORDER TO GIVE MARKERT
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OPPORTUNITY TO BRIEF US ON MAY 13-14 SESSIONS HELD IN

NEW YORK (AND WHICH HE HAD ATTENDED) ON GENERAL SUBJECT OF PERU'S BRIDGE FINANCING NEEDS TO MEET BALANCE OF PAYMENTS GAP THIS YEAR. WE HAD ALSO EXPECTED TO RECEIVE INFORMATION REGARDING PERU CENTRAL BANK PRESIDENT CARLOS SANTISTEVAN'S EFFORTS TO OBTAIN \$33 MILLION FOR MARCONA COMPENSATION PAYMENT, BUT, ACCORDING TO MARKERT, SANTISTEVAN DID NOT RAISE MARCONA SITUATION IN FORMAL SESSIONS WITH BANKERS, BUT ONLY MENTIONED NEED FOR FUNDS IN PASSING DURING LUNCHEON AFTERWARDS.

3. PRELIMINARY SESSION - IN MAY 13 SESSION OF EIGHT LEADING U.S. LENDERS (PRIOR TO MEETING WITH SANTISTEVAN ON FOLLOWING DAY), CITIBANK DETAILED CRITICAL PERUVIAN ECONOMIC SITUATION AND EXPRESSED VIEW THAT IT WOULD PREFER TO KEEP PERU'S OUTSTANDING DEBT CURRENT RATHER THAN ALLOW A DEFAULT. CITIBANK LISTED THREE CONDITIONS, ONE OF WHICH PERU MUST FULFILL BEFORE CITIBANK WOULD AGREE TO JOINING ANY FINANCING SYNDICATE:

A. A PERUVIAN PLEDGE ON ITS GOLD;
B. A SERIOUS STABILIZATION PROGRAM, PROBABLY INCLUDING A DEVALUATION OF THE SOL; OR
C. A PERUVIAN STANDBY AGREEMENT WITH THE IMF.
ACCORDING TO MARKERT, THE PARTICIPANTS OF THE MAY 13 MEETING SHARED THE CITIBANK EVALUATION IN VARYING DEGREES, BUT THERE WAS NO FURTHER CONSENSUS, EXCEPT THAT THERE WAS NO POSSIBILITY FOR A SYNDICALIZATION OF A LOAN PACKAGE TO PERU AT THIS TIME.

4. MEETING WITH SANTISTEVAN - ON MAY 14 SANTISTEVAN AND REUS MET WITH REPRESENTATIVES OF MANUFACTURERS HANOVER, CITIBANK, MORGAN GUARANTY, AND BANK OF AMERICA IN WHAT SANTISTEVAN HAD BILLED AS JUST ANOTHER GET-TOGETHER WITH PERU'S MAJOR CREDITORS. DURING HIS VAGUE AND VERY GENERAL PRESENTATION, SANTISTEVAN INDICATED THAT HE HOPED TO GET ABOUT \$100 MILLION FROM EUROPEAN, CANADIAN, AND JAPANESE BANKS AND THAT HE WAS LOOKING TO U.S. BANKS FOR APPROXIMATELY \$300 MILLION. (COMMENT: THIS IS A CHANGE FROM PERU'S ORIGINAL GOAL OF OBTAINING \$150 MILLION FROM EUROPEAN, CANADIAN, AND JAPANESE, AND \$250 MILLION FROM LIMITED OFFICIAL USE

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THE U.S.) DURING THE JOINT MEETING, CHAIRED BY JIM GREENE OF MANUFACTURERS HANOVER, BANKS CONVEYED THEIR NEGATIVE REACTION TO SANTISTEVAN'S REQUEST, BUT INDICATED WILLINGNESS TO MEET ON INDIVIDUAL BASIS WITH HIM.

5. DURING SUBSEQUENT LUNCHEON MEETING WITH SANTISTEVAN, CITIBANK FOCUSED ON CENTRAL GOVERNMENT'S DEFICIT AS PRINCIPAL AREA FOR GOP'S CONCENTRATION IN WORKING UP

STABILIZATION PACKAGE. MARKERT STATED THAT CITIBANK "BEAT SANTISTEVAN ON HEAD AND SHOULDERS" ON NEED TO DEVALUE SOL. SANTISTEVAN ASSERTED THAT GOP WOULD BE COMING OUT WITH BITS AND PEICES OF ECONOMIC PROGRAM OVER NEXT SEVERAL WEEKS. (SOME NEW MEASURES WERE ANNOUNCED ON MAY 19 AND ARE BEING REPORTED SEPTELS.) HOWEVER, SANTISTEVAN INSISTED THAT THERE WOULD BE NO DEVALUATION OF PERUVIAN SOL.

6. IN GENERAL DISCUSSION WITH EMBOFFS ON PERU'S ECONOMIC PROBLEMS WHICH FOLLOWED MARKERT'S BRIEFING, ISSUES OF MARCONA AND CUAJONE SUPPLEMENTARY FINANCING WERE RAISED. MARKERT SAID THAT CHASE, THE LEADER IN THE CUAJONE FINANCING, WAS TELLING THE CENTRAL BANK THAT THE TOQUEPALA TAX CASE WOULD HAVE TO BE RESOLVED BEFORE THE BANK CONSORTIUM WOULD GO AHEAD ON THE SUPPLEMENTARY FINANCING. MARKERT ALSO NOTED THAT MORGAN GUARANTY MAKES A MARCONA SETTLEMENT A PRECONDITION FOR ITS PARTICIPATION IN ANY FURTHER FINANCIAL PACKAGES FOR PERU. ROGERS SAID THAT BANCO POPULAR HAD APPROACHED BANK OF AMERICA AND OTHER BANKS IN PERU CONCERNING A PROPOSAL TO USE PRE-EXPORT FINANCING TO OBTAIN FUNDS TO PAY THE MARCONA COMPENSATION, BUT THE FEELING OF BOTH MARKERT AND ROGERS WAS THAT THE PROPOSAL WOULD NOT BE SUCCESSFUL. MARKERT OPINED THAT THE GOP KNOWS THAT IN A VERY SHORT TIME IT MUST (A) SETTLE MARCONA, (B) COME UP WITH ENOUGH CASH TO KEEP COUNTRY GOING, AND (C) RESOLVE THE SPCC-TOQUEPALA TAX CASE. ROGERS FELT THAT THE BALANCE OF PAYMENTS FINANCING WAS MOST IMPORTANT AND THAT IT WOULD HAVE TO BE RESOLVED BEFORE FINANCING WOULD BECOME AVAILABLE FOR THE OTHER NEEDS. MARKERT AGAIN NOTED THAT ALL THE GOP HAS TO DO WAS COME UP WITH A CONCEPTUALLY ACCEPTABLE STABILIZATION PROGRAM. THAT WOULD BE VIEWED BY CITIBANK AND OTHERS AS A CONCRETE SIGN FROM GOP, AND BANKS WOULD THEN LIMITED OFFICIAL USE

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GO AHEAD WITH SYNDICALIZATION AND STAGED DISBURSEMENTS. IF, ON THE OTHER HAND, PERU DOES NOT COME BACK TO BANKS WITH A SERIOUS PROGRAM IN A REASONABLE TIME, MARKERT THEN FEELS THAT THERE WOULD BE NO RECOURSE BUT TO GO INTO A SERIOUS AND UNPLEASANT DEBT RESCHEDULING EXERCISE.

7. COMMENT: MARKERT'S BRIEFING, AND THE ENSUING DISCUSSION EMPHASIZE EXTREME SERIOUSNESS OF PERU'S FINANCIAL POSITION. GOP CONCERN WITH SITUATION IS UNDERLINED BY FACT THAT WHILE SANTISTEVAN'S STOPOVER IN NEW YORK ON RETURN FROM EUROPE WAS SUPPOSED TO CONCERNTRATE ON OBTAINING FINANCING TO MAKE \$33 MILLION MARCONA COMPENSATION PAYMENT, HE IN FACT TOUCHED ON MARCONA ONLY IN PASSING AND SPENT BULK OF THIS TIME IN UNSUCCESSFUL EFFORT TO GARNER \$300 MILLION BALANCE OF PAYMENTS PACKAGE.

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